

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Lapeer District Library</b>	County <b>Lapeer</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>5/12/05</b>	Date Accountant Report Submitted to State: <b>6/30/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Stewart, Beauvais &amp; Whipple PC</b>			
Street Address <b>1979 Holland Avenue</b>	City <b>Port Huron</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature 			Date <b>6/30/05</b>

**LAPEER DISTRICT LIBRARY**

**ANNUAL FINANCIAL REPORT  
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED  
DECEMBER 31, 2004**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**LAPEER DISTRICT LIBRARY**

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DECEMBER 31, 2004**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Lapeer District Library

We have audited the accompanying financial statements of the governmental activities of the Lapeer District Library as of and for the year ended December 31, 2004 as listed in the Table of Contents. These financial statements are the responsibility of the Lapeer District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Lapeer District Library as of December 31, 2004, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the basic financial statements, the Lapeer District Library adopted Governmental Accounting Standards Board Statements 34 and related statements as of and for the year ended December 31, 2004. This resulted in a change to the Lapeer District Library's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued our report, dated May 12, 2005, on our consideration of the Lapeer District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.



Certified Public Accountants

May 12, 2005

## **BASIC FINANCIAL STATEMENTS**

**LAPEER DISTRICT LIBRARY**  
**BALANCE SHEET/STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2004**

	Governmental Fund	Adjustments Note 2	Statement of Net Assets
<b>ASSETS</b>			
Cash and cash equivalents	\$ 378,837	\$ -	\$ 378,837
Endowments with community foundation	79,692	-	79,692
Accounts receivable	9,284		9,284
Taxes receivable	1,505,006	-	1,505,006
Due from other governmental units	62,257		62,257
Prepaid items	61,221	-	61,221
Capital Assets, net of depreciation			
Assets not being depreciated	-	17,000	17,000
Assets being depreciated	-	601,646	601,646
	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 2,096,297</u>	<u>\$ 618,646</u>	<u>\$ 2,714,943</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 57,813	-	57,813
Accrued payroll and related liabilities	44,981	-	44,981
Deferred revenue	1,529,629	-	1,529,629
Long-term liabilities			
Accrued vacation and sick	-	49,717	49,717
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>1,632,423</u>	<u>49,717</u>	<u>1,682,140</u>
<b>FUND BALANCE</b>			
Reserved			
Community foundation	79,692	( 79,692)	-
Prepaid items	61,221	( 61,221)	-
External restrictions	38,654	( 38,654)	-
Unreserved			
Undesignated	284,307	( 284,307)	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balance	<u>463,874</u>	<u>( 463,874)</u>	<u>-</u>
	<u>          </u>		
Total Liabilities and Fund Balances	<u>\$ 2,096,297</u>		
<b>NET ASSETS</b>			
Invested in capital assets		618,646	618,646
Restricted		38,654	38,654
Unrestricted		375,503	375,503
		<u>          </u>	<u>          </u>
Total Net Assets		<u>\$ 1,032,803</u>	<u>\$ 1,032,803</u>

See Notes to  
Financial Statements

# LAPEER DISTRICT LIBRARY

## STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

	Governmental Fund	Adjustments Note 2	Statement of Net Activities
<b>Revenues:</b>			
Property taxes - operating	\$ 1,434,834	\$ -	\$ 1,434,834
Reed gates grant	10,559	-	10,559
State aid - books	47,670	-	47,670
Penal fines	293,989	-	293,989
Fines and fees	2,625	-	2,625
Donations	25,340		25,340
Library services	11,150		11,150
Interest earned	7,471		7,471
Investment earnings - endowment	8,277		8,277
Miscellaneous	5,820	-	5,820
	<u>1,847,735</u>	<u>-</u>	<u>1,847,735</u>
<b>Expenditures/Expenses:</b>			
Personnel	1,284,076	3,070	1,287,146
Library services	488,852	( 126,409)	362,443
Facilities and equipment	71,250	( 9,674)	61,576
Other expenditures	41,028	-	41,028
Depreciation	-	168,030	168,030
	<u>1,885,206</u>	<u>35,017</u>	<u>1,920,223</u>
 Excess of revenues under expenditures/expenses	 ( 37,471)	 ( 35,017)	 ( 72,488)
 Fund Balance/Net Assets at January 1, 2004	 <u>501,345</u>	 <u>603,946</u>	 <u>1,105,291</u>
 Fund Balance/Net Assets at December 31, 2004	 <u><u>\$ 463,874</u></u>	 <u><u>\$ 568,929</u></u>	 <u><u>\$ 1,032,803</u></u>

See Notes to  
Financial Statements

**LAPEER DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting methods and procedures adopted by the Lapeer District Library (the "Library") conform in all material respects to U.S. generally accepted accounting principles as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Library's financial statements.

**A. Reporting Entity –**

The Library is governed by an eight member Board of Trustees. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Accordingly, there are no component units to be included in the Library's financial report.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The government-wide financial statements (i.e. the Statement of Net Assets and Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

**C. Assets, Liabilities, and Net Assets or Equity –**

**Cash and Cash Equivalents** – The Library's cash and cash equivalents are cash on hand, demand deposits and certificates of deposits with original maturities of three months or less from the date of acquisition.

**Receivables** – All receivables are shown net of allowances for uncollectible amounts.

**Prepaid Items** – Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expenditures.

**LAPEER DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Capital Assets** – Are reported in the government-wide statements. Capital assets are defined by the Library as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Building	50
Equipment and vehicles	5
Library books, periodicals and videos	3

**Accrued Vacation and Sick Pay** – In accordance with the Lapeer District Library personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

**Deferred Revenues** – In both the government-wide statements and in the fund (modified accrual) financial statements revenues received or recorded before it is earned is recorded as a deferred revenue.

**Fund Equity** – The fund (modified accrual) statements report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

**Estimates** – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

- A.** Explanation of differences between the fund (modified accrual) balance sheet and the government-wide statement of net assets (Page 2).

Fund Balance	\$ 463,874
Capital assets used in the modified accrued activities which are not financial resources and therefore are not reported in the fund statements	

**LAPEER DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont'd):**

Add – capital assets	3,450,999
Deduct – accumulated depreciation	( 2,832,353)
Long-term accrued vacation and sick time that are not due in the current period, therefore, not reported in the fund (modified accrual) activities	( <u>49,717</u> )
Net Assets	<u>\$ 1,032,803</u>

- B.** Explanation of differences between the fund (modified accrual) statement of revenues, expenditures and changes in fund balance and the government-wide statement of net activities (Page 3).

Net changes in fund balance – modified accrual	\$( 37,471)
The fund (modified accrual) statements report capital outlay as expenditures; however, in the Statement of Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses	
Add – capital outlay	136,083
Deduct – depreciation	( 168,030)
Accrued vacation and sick time expenses not reported in the fund (modified accrual) statement because they will not be paid with current financial resources	( <u>3,070</u> )
Change in Net Assets	<u>\$( 72,488)</u>

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

The Library's budgets are prepared on the accrual basis of accounting and approved by the Board prior to the start of the year. After the budget is adopted, all amendments must be approved by the Library Board.

The Library's approved budget was adopted at the account level and control was exercised at that level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act and the level requiring amendment approval by the District Library Board.

Expenditures at this legally adopted level in excess of the amount budgeted are a violation of the Budgeting Act. The Library had no expenditures in excess of budget.

## **LAPEER DISTRICT LIBRARY**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004**

#### **NOTE 4 – DEPOSITS AND INVESTMENTS:**

The Library utilizes a checking account and a pooled investment fund. In accordance with Act 20 PA 1943, as amended, the Library is authorized to invest its surplus funds in the following types of investments:

- a) In bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States.
- b) In certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.
- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g) In obligations described in subdivision (a) through (f), as named above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967 PA 7, MCL 124.501 to 124.512.
- h) In Investment pools organized under the Surplus Funds Investment Act, 1982 PA 367, 129.111 to 129.118.
- i) In mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

#### **Deposits -**

Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations. Deposits of the Library are at federally insured banks in the State of Michigan in the name of the Library.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

# **LAPEER DISTRICT LIBRARY**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004**

### **NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):**

The deposits bank balance at December 31, 2004, is \$65,387, which is covered by FDIC insurance.

The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result the Library evaluates each financial institution and assesses the level of risk. The Library uses only those financial institutions with an acceptable estimated risk level as depositories.

Due to significantly higher cash flow at certain periods during the year, the amount the Library holds as deposits increases significantly. As a result, the amount of uninsured and uncollateralized deposits were substantially higher at these peak periods than at year end.

#### **Investments –**

The Library at December 31, 2004 held \$314,325 in financial institution pooled funds that are not evidenced by securities that exist in physical or book entry form. The financial institution pooled funds have been reported in the financial statements as cash equivalents because they have the general characteristic of demand deposit accounts in that the Library may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The financial institution pooled funds are reported at cost, which approximates fair value.

The following is a summary of the financial statement presentation of deposits and investments at December 31, 2004:

Reported as Cash and Cash Equivalents –	
Petty Cash and Cash on Hand	\$ 496
Cash in Checking	64,016
Investment Trust Funds	<u>314,325</u>
	<u>\$ 378,837</u>

### **NOTE 5 –ENDOWMENTS WITH COMMUNITY FOUNDATION:**

The Library has two separate endowment funds that are administered by the Community Foundation of Greater Flint. One endowment fund was established for the benefit of the District Library and the other for the benefit of the Marguerite de Angeli Branch. Both endowment funds had original contributions from the District Library with additional contributions from individuals. Both Endowment funds are subject to variance power of the Foundation, which charges an administrative fee and operates under a spending policy agreed to by the Library.

The contributions to the endowment funds by the Library are considered funds of the Library and recorded on its balance sheet. The contributions to the Endowment Funds from individuals are a component fund of the Foundation.

**LAPEER DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 5 –ENDOWMENTS WITH COMMUNITY FOUNDATION – (cont’d):**

The following are the balances at December 31, 2004:

	<u>Library Gifts</u>	<u>Designated Gifts</u>
District Library	\$ 61,730	\$ 446
Marguerite de Angeli Branch	<u>17,962</u>	<u>6,725</u>
	<u>\$ 79,692</u>	<u>\$ 7,171</u>

**NOTE 6 – PROPERTY TAXES AND TAXES RECEIVABLE:**

The Lapeer District Library's border's encompass all of the municipalities of the City of Lapeer and townships of Arcadia, Burlington, Burnside, Deerfield, Elba, Goodland, Hadley, Lapeer, Marathon, Mayfield, Metamora, Oregon and Rich. Properties in each government unit are levied each December 1, on the taxable valuation of property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and becomes delinquent after February 14.

Although the County's 2004 ad valorem tax is levied and collectible on December 1, it is the Library's policy to recognize in governmental fund types revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of Library operations. The property taxes levied at December 1, are accrued as current taxes receivable with the appropriated deferral and are budgeted as revenue in the subsequent year. Taxes receivable at December 31, 2004 is \$1,505,006.

Assessed values are established annually by the County and are equalized by the State at an estimated percentage of the current market value. A taxable value is established on which taxes are calculated. Real and personal property in the City and Township's for the 2004 and 2003 levies have a taxable value of \$1,823,551,255 and \$1,708,278,931, respectively. The millage rate was .8272 and .8359, respectively.

**LAPEER DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 7 – CAPITAL ASSETS:**

Capital assets activity for the current year was as follows:

	Adjusted Jan. 1, 2004 Balance	Additions	Deletions	Dec. 31, 2004 Balance
Capital assets not being depreciated – Land	\$ 17,000	\$ -	\$ -	\$ 17,000
Capital assets being depreciated –				
Buildings and building improvements	383,700	-	-	383,700
Land improvements	21,255	-	-	21,255
Equipment	252,784	9,674	-	262,458
Vehicles	17,486	-	-	17,486
Books, periodicals and videos	<u>2,694,500</u>	<u>126,409</u>	<u>71,809</u>	<u>2,749,100</u>
	<u>3,369,725</u>	<u>136,083</u>	<u>71,809</u>	<u>3,433,999</u>
Less accumulated depreciation for –				
Buildings and building improvements	112,270	7,050	-	119,320
Land improvements	21,255	-	-	21,255
Equipment	132,548	34,955	-	167,503
Vehicles	5,246	3,497	-	8,743
Books, periodicals and videos	<u>2,464,813</u>	<u>122,528</u>	<u>71,809</u>	<u>2,515,532</u>
	<u>2,736,132</u>	<u>168,030</u>	<u>71,809</u>	<u>2,832,353</u>
Net capital assets being depreciated	<u>633,593</u>	<u>( 31,947)</u>	<u>-</u>	<u>601,646</u>
Total capital assets net of depreciated	<u>\$ 650,593</u>	<u>\$( 31,947)</u>	<u>\$ -</u>	<u>\$ 618,646</u>

**NOTE 8 – LONG-TERM DEBT:**

In accordance with the Library's personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. As of December 31, 2004, the vested benefits amounted to \$49,717.

**NOTE 9 – OPERATING LEASES:**

The Library leases certain equipment under non-cancelable operating leases expiring in various years. Future minimum lease payments under the non-cancelable operating leases are as follows:

Year Ending December 31,	Copiers	Fax Machine	Total
2005	\$ 4,223	\$ 343	\$ 4,566
2006	3,278	258	3,536
2007	1,584	-	1,584
2008	<u>264</u>	<u>-</u>	<u>264</u>
	<u>\$ 9,349</u>	<u>\$ 601</u>	<u>\$ 9,950</u>

# LAPEER DISTRICT LIBRARY

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

### NOTE 10 - EMPLOYEE PENSION PLAN:

#### Plan Description -

The Lapeer District Library participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

#### Funding Policy -

The Library is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2004 was 13.97%. The contribution requirements of plan members and the Library are established and may be amended by the Library Board, depending on the MERS contribution program adopted by the Library.

#### Annual Pension Costs -

For the year ended December 31, 2004 the Library's annual pension cost of \$124,614 for MERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the December 31, 2003 initial actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 4.5% plus a percentage, depending on age, attributable to seniority/merit, (d) the assumption that withdrawal rules will decrease with the increase in the years of service, and (3) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Year Ending	Annual Pension	Percentage	Net Pension
<u>December 31,</u>	<u>Costs (APC)</u>	<u>of APC</u>	<u>Obligation</u>
<u>2003</u>	<u>\$ 117,847</u>	<u>Contribution</u>	<u>100 %</u>
			-

**LAPEER DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 10 - EMPLOYEE PENSION PLAN – (cont'd):**

**Schedule of Funding Progress**

Valuation Date	Actuarial Value of of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
2002	\$ -	\$ 2,417,978	\$ 2,417,978	0 %	\$ 783,423	309 %
2003	1,281,061	2,110,507	829,446	61	771,722	108

**NOTE 11 – RISK MANAGEMENT:**

The Library is a voluntary member of the Michigan Municipal Risk Management Authority established pursuant to PA 35 of 1951 of the State of Michigan which authorize local units of government to exercise jointly any power, privilege or authority which each might exercise separately. The Authority administers a risk management fund providing the Library with loss protection for liability, vehicle physical damage, and property and crime coverage.

The Library is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expense for each occurrence that is within the Member's Self Insurance Retention. The Library's Self Insurance Retention and deductible are as follows:

<u>Coverage</u>	<u>Deductible</u>	<u>Self Insured</u>
Liability	None	State Pool Member
Vehicle physical damage	250/Vehicle	State Pool Member
Property and crime	250/Occurrence	State Pool Member

The Library has limits to coverage on an occurrence basis and must be paid first from the Library's Self Insured Retention. The most the MMRMA will pay is it's Self Insured Retention obligation.

The Library continues to carry commercial insurance for employee health and accident insurance and workers compensation insurance.

**NOTE 12 – RESTATEMENTS:**

As of and for the year ended December 31, 2004, the Library implemented the following Governmental Accounting Standards Board pronouncements:

**Statements**

- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*
- No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment for GASB No. 33*

**LAPEER DISTRICT LIBRARY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**NOTE 12 – RESTATEMENTS – (cont’d):**

- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

**Interpretation**

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

As a result of implementing these pronouncements for the fiscal year ended December 31, 2004, the following restatements were made to beginning net assets of the government-wide financial statements.

Fund Balance January 1, 2004	\$ 501,345
Capital assets	3,386,725
Accumulated depreciation on capital assets	( 2,736,132)
Accrued vacation and sick	( <u>46,647</u> )
Net Assets January 1, 2004	<u>\$ 1,105,291</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

# LAPEER DISTRICT LIBRARY

## STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

### BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Final Budget	General Operations	Actual External Restrictions
<b>Revenues:</b>				
Property taxes - operating	\$ 1,441,874	\$ 1,441,874	\$ 1,434,834	\$ -
Reed gates grant	-	35,182	-	10,559
State aid - books	33,871	33,871	47,670	-
Penal fines	300,000	300,000	293,989	-
Fines and fees	3,300	3,300	2,625	-
Donations	19,050	19,050	514	24,826
Library services	12,000	12,000	11,150	-
Interest earned	6,000	6,050	7,471	-
Investment earnings - endowment	-	-	8,277	-
Miscellaneous	7,385	8,385	5,696	124
	<u>1,823,480</u>	<u>1,859,712</u>	<u>1,812,226</u>	<u>35,509</u>
<b>Expenditures:</b>				
<b>Personnel:</b>				
Salaries and wages	1,293,359	933,756	930,619	-
Fringe benefits	-	473,207	344,861	-
Mileage reimbursement	7,200	6,700	5,434	-
Training	5,870	3,070	2,952	-
Health service	484	484	210	-
Total Personnel	<u>1,306,913</u>	<u>1,417,217</u>	<u>1,284,076</u>	<u>-</u>
<b>Library Services:</b>				
Contractual services	177,926	170,482	148,653	15,370
Books	120,000	120,000	108,274	2,793
Periodicals and AV materials	21,000	21,000	18,135	1,096
Memberships	18,500	24,520	24,442	-
Computer automation	16,509	23,500	23,473	-
Transfer to other districts	149,702	148,702	146,616	-
Total Library Services	<u>503,637</u>	<u>508,204</u>	<u>469,593</u>	<u>19,259</u>
<b>Facilities and Equipment:</b>				
Rent	3,000	4,100	4,066	-
Maintenance - building and grounds	4,000	2,500	2,166	-
Maintenance - vehicles and equipment	2,400	2,800	2,485	-
Supplies building and grounds	4,010	5,505	5,347	-
Utilities	31,200	31,200	30,873	-
Insurance	13,263	13,263	13,200	-
Telephone	34,246	69,428	13,113	-
Total Facilities and Equipment	<u>92,119</u>	<u>128,796</u>	<u>71,250</u>	<u>-</u>

<u>Total</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 1,434,834	\$( 7,040)
10,559	( 24,623)
47,670	13,799
293,989	( 6,011)
2,625	( 675)
25,340	6,290
11,150	( 850)
7,471	1,421
8,277	8,277
5,820	( 2,565)
<u>1,847,735</u>	<u>( 11,977)</u>

930,619	3,137
344,861	128,346
5,434	1,266
2,952	118
210	274
<u>1,284,076</u>	<u>133,141</u>

164,023	6,459
111,067	8,933
19,231	1,769
24,442	78
23,473	27
146,616	2,086
<u>488,852</u>	<u>19,352</u>

4,066	34
2,166	334
2,485	315
5,347	158
30,873	327
13,200	63
13,113	56,315
<u>71,250</u>	<u>57,546</u>

Continued

**LAPEER DISTRICT LIBRARY**

**STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Final Budget	General Operations	Actual External Restrictions
<b>Other Expenditures:</b>				
Postage	8,510	6,814	6,459	114
Office supplies	13,350	10,850	10,167	-
Board per diem	4,860	4,260	2,160	-
Community promotion	3,000	3,000	2,250	-
Printing and publishing	1,000	1,000	725	-
Miscellaneous	54,102	55,902	2,074	17,079
Total Other Expenditures	<u>84,822</u>	<u>81,826</u>	<u>23,835</u>	<u>17,193</u>
 Total Expenditures	 <u>1,987,491</u>	 <u>2,136,043</u>	 <u>1,848,754</u>	 <u>36,452</u>
 Excess of revenues under expenditures	 ( 164,011)	 ( 276,331)	 ( 36,528)	 ( 943)
 Fund Balance at January 1, 2004	 <u>387,862</u>	 <u>387,862</u>	 <u>461,748</u>	 <u>39,597</u>
 Fund Balance at December 31, 2004	 <u><u>\$ 223,851</u></u>	 <u><u>\$ 111,531</u></u>	 <u><u>\$ 425,220</u></u>	 <u><u>\$ 38,654</u></u>

<u>                    </u>	Variance with Final Budget
<u>        Total        </u>	<u>        Positive        </u> <u>        (Negative)        </u>
6,573	241
10,167	683
2,160	2,100
2,250	750
725	275
<u>19,153</u>	<u>36,749</u>
<u>41,028</u>	<u>40,798</u>
 <u>1,885,206</u>	 <u>250,837</u>
 ( 37,471)	 238,860
<u>501,345</u>	<u>113,483</u>
 <u><u>\$ 463,874</u></u>	 <u><u>\$ 352,343</u></u>

Concluded



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of Directors  
Lapeer District Library

We have audited the financial statements of the Lapeer District Library as of and for the year ended December 31, 2004, and have issued our report thereon, dated May 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financing Reporting**

In planning and performing our audit, we considered Lapeer District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lapeer District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Directors of the Lapeer District Library, and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

May 12, 2005

To the Board of Directors  
Lapeer District Library

We have recently completed our audit of the records of Lapeer District Library for the year ended December 31, 2004. In connection with the examination, we believe that certain changes in your accounting procedures would be helpful in improving management's control and/or the operational efficiency of the record keeping system. These suggestions are a result of our evaluation of internal accounting controls and procedures, and our discussions with management. As noted in the **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**, dated May 12, 2005, these weaknesses were not considered to be material weaknesses, but are areas we would like to bring to your attention.

#### **Improved controls over the payroll function**

Currently, the accounting manager summarizes the approved timesheets, submits the information to the payroll processing service, receives the checks from the processing service and reconciles the bank account.

One individual should not be performing all functions relating to one accounting area.

To improve control in the payroll area, we suggest that someone other than the payroll clerk should receive the checks from the payroll processing service and compare the checks to the reports generated by the service. After this independent review of checks and the reports, someone other than the accounting manager can distribute the checks.

#### **Approval of journal entries**

Our review of the journal entry process revealed that journal entries are not being numbered.

Not having a procedure requiring that all journal entries be numbered, allows for the possibility of inaccurate or fraudulent financial reporting.

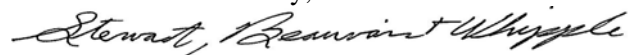
We recommend that all journal entries be numbered with the journal entry from the computer system.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2004 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the management and the Board of Directors of Lapeer District Library and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart Beausant Whipple". The signature is written in dark ink and is positioned below the word "Sincerely,".

May 12, 2005